

Security Problems and Opportunities to Russia's South

Dr. Yuri Fedorov
Dr. Manana Gousseinova
Institute for USA and Canada Studies,
Russian Academy of Sciences
Dr. Richard Weitz
Center for Naval Analyses

Edited with an introduction by Dr. Weitz

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Center for Naval Analyses

4401 Ford Avenue • Alexandria, Virginia 22302-1498

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A handwritten signature in black ink, appearing to read "Henry H. Gaffney, Jr.", written in a cursive style.

Henry H. Gaffney, Jr.
Director, Concepts and Assessments
Policy Analysis Division

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Introduction

The dissolution of the Soviet Union, the creation of newly independent states, and the new-found opportunity to develop and exploit the oil and gas resources of the Caspian Basin and Central Asia have drawn international attention to the area south of Russia in the post-Cold War period. But this opportunity is complicated by the conflicts and geopolitical rivalries—some old, some new—in the Caucasus region and among Russia, Turkey, Iran, and the newly independent states.

For these reasons, CNA and the Institute for USA and Canada Studies (ISKRAN) decided to make this topic an agenda item in their 11th seminar. This meeting took place in Suzdal, Russia, on December 12-13, 1998. Earlier versions of the three papers in this report were presented at this seminar. The authors subsequently revised and amplified their remarks. Richard Weitz of CNA then edited the three papers for wider dissemination.

In the first paper, "Caspian Oil and Gas in Economic and Strategic Context," Professor Yuri Fedorov of the Moscow Institute of International Studies and ISKRAN discusses the complex economic and strategic relations that have emerged in the Caspian Basin region during the past few years. His analysis shows that the Caspian countries could export more than 100 million tons of oil by 2015, which would make them strong competitors with Russia on the world oil market. Caspian exports of natural gas could challenge Russian gas exports in some regional markets. A major problem for Russia's oil and gas industry is that the Caspian region provides a more attractive climate for foreign investment than Russia. Professor Fedorov also reviews some of the economic and security issues involved in selecting the pipelines that will transport Caspian energy products to international markets. He concludes that the Russian government needs to decide whether to pursue a "zero-sum" approach toward the Caspian region or, as he

prefers, help to sustain a chain of independent and stable states, thus keeping them friendly and cooperative.

In her paper, "The Problem of Conflict Management in the Transcaucasus," Dr. Manana Gousseinova of ISKRAN reviews the efforts of the newly independent states of the southern Caucasus to redefine their foreign and security policies following the USSR's collapse. She highlights the difficulties these countries face as they seek to move closer to the West without unduly antagonizing Russia. She also discusses the growing U.S. interest in the region, and assesses recent U.S. policies toward the Transcaucasian states. She identifies the resolution of the conflicts over Nagorno-Karabakh and Abkhazia, and Russia's abandonment of any neo-imperial aspirations, as essential prerequisites for the region's peace and prosperity.

In the third paper, Dr. Weitz surveys the "Emerging Security Challenges and Opportunities in the Black Sea Region." The paper first highlights the implications for the United States, Russia, and other countries of recent developments in the region. It then addresses how these trends might present challenges and provide opportunities for U.S.-Russian relations.

The appendix provides a transcript of the exchange that occurred at the Suzdal seminar on the topic of, "The Problems to the South of Russia."

Caspian Oil and Gas in Economic and Strategic Context

**Professor Yuri E. Fedorov, Head of Section
The Institute for USA and Canada Studies
Russian Academy of Sciences**

By the middle of the 1990s, the Caspian Basin had emerged as an important locus of world policy. The conflicting interests and policies of the regional states, including Russia, and some global powers, including the United States, have formed a complex set of economic and strategic relationships there. This largely reflects rising hopes and expectations related to the hydrocarbon reserves discovered or expected to be found under the Caspian Sea and in neighboring areas. The mass media readily compare the struggle for influence in the Caspian region with Rudyard Kipling's "Great Game," and describe the zone itself as the "Persian Gulf of the XXI century." However, since oil prices began to fall at the end of 1997, pessimistic forecasts of the region's energy prospects have dominated political and economic calculations and media reports.

The future of the Caspian energy developments depends not only on the volume of oil and gas in the region. Other factors also will play a decisive role: energy demands in Asia and Latin America; international oil and gas prices; energy transportation costs; the time of the depletion of the North Sea deposits; the future of Iraqi sanctions; and the building of diversified and expensive infrastructures in the region. Some of these circumstances, such as energy consumption in emerging markets, are largely unpredictable. Also, estimates of oil and gas reserves in the Caspian Basin differ greatly, due to the use of obsolete data, different methods of assessing and interpreting geological information, and political and other considerations. Nevertheless, one must acknowledge the possibility that the advent of Caspian

states as world energy producers might damage Russia's economic posture.

All this poses a number of questions. What is and could be the actual share of Caspian oil and gas in the world energy market? How could the fall of oil prices influence Caspian oil prospects? What might the potential emergence of Caspian states as energy-exporting countries mean for Russia? Will the Caspian Basin turn into a new field of Russian-American rivalry?

Prospects for oil and gas resources in the Caspian region

Any analysis of the political and economic prospects of the Caspian region is seriously complicated by the existence of sharply differing assessments of the oil and gas reserves and resources that have been or could be found there. There are several technical characteristics of oil and gas fields, deposits, and blocks. For instance, the amount of hydrocarbons confirmed by actual drilling that can be extracted with existing technologies may make up only a small percentage of the total amount of oil and gas that hypothetically could be in place. An additional difficulty results from the incompatible systems countries use for measuring such characteristics. However, all these systems clearly distinguish between assessments based on the results of test-drilling or actual exploitation of the hydrocarbon deposit, on the one hand, and hypothetical evaluations made with the help of geological and geophysical (especially seismic) exploration, on the other.

As of 1999, most Caspian oil and, to a lesser degree, gas resources were determined by seismic surveys, and thus represent "not proven but possible or probable" reserves. Only a few new oil and gas fields were examined with the help of actual drilling. Moreover, further examination of the Caspian seabed structures is limited by the shortage in the Caspian Sea of essential offshore drilling equipment: basically semi-submerged drilling rigs that can drill bore-holes several kilometers deep. In fact, of the ten drilling rigs currently in Azerbaijan, there is only one platform (called "Deed Gorgud") that, after being modernized by AIOC, will meet Western standards.¹

Meanwhile, the geological and technical characteristics of oil and gas fields are objects of intensive political and economic manipulation. The ruling elites of the newly independent Caspian states are intensely interested in attracting foreign investments, especially in the energy sector. To entice the large international oil companies, they are inclined to exaggerate the hypothetical oil and gas resources in their territories. In particular, they often use estimates of "probable or possible" resources instead of assessments of proven reserves. Politicians also use such artifices to affect mass media commentary on the investment and political climate in the region.

While the newly independent Caspian states are inclined to overstate their energy resources, some influential Russian groups are interested in underrating them. The reasons are obvious. The rise of the Caspian Basin as an oil- and gas-exporting area may threaten Russia's position in the world energy market. In addition, Russian experts are basically relying on the results of geological research undertaken in the Soviet era, which are obsolete. The business communities of the new Caspian states and the major oil companies have acquired new information from the surveys they made in the 1990s. It also important to note that whole body of technical information produced by seismic research and test drilling is treated as a collection of momentous commercial secrets belonging to the newly independent states and the international consortia formed to develop oil fields in the Caspian area. This makes it difficult for independent experts to form an adequate picture of the region's energy reserves and resources.

The same is true for assessments of transportation costs of Caspian energy to the areas of likely consumption in Europe, the Far East, or South Asia. Transportation costs have become an essential factor that will determine the competitiveness of Caspian energy with Russian oil and gas—on the European market in particular.

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1. *Caspian Investor* (May 1998), p. 23. AIOC is the Azerbaijan International Operational Company, formed in 1994 to develop and explore three promising off-shore oil fields.

Oil reserves

By the middle of the 1990s, the world's proven oil reserves were estimated at about 136-137 billion tons (1 trillion barrels); the CIS countries' share of this total was 5.65 percent, or 7.7 billion tons.² According to most reliable estimates, the proven reserves of oil in both the on-shore and off-shore deposits in the Caspian countries are within 2.1-3.9 billion tons (15.4-29.0 billion barrels) range. If we add the oil resources yet to be found, the total amount of oil that theoretically can be produced in the Caspian area may reach 24-26 billion tons (178-191 billion barrels). (See table 1.) However, up to now, the proven reserves of oil in the region make up only 1.6 to 3.0 percent of the total world reserves.

Table 1. Oil reserves and resources of the Caspian region
(billion tons)^a

	Proven	Probable	Total
Azerbaijan	0.5 - 1.5	3.7	4.2 - 5.2
Kazakhstan	1.4 - 2.2	11.6	13.0 - 13.8
Turkmenistan	0.19 - 0.20	4.4	4.6
Uzbekistan	0.03-0.04	0.1	0.1
Total	2.1 - 3.9	22.0 ^b	24.2 -25.9 ^b

a. Source: - U.S. Energy Information Administration, *Caspian Sea region* (1997). <http://www.eia.doe.gov>.

b. Including Russian and Iranian reserves in the region.

In the middle of the 1990s, oil production in Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan amounted to 1.2 percent of world oil production, and to 13-14 percent of that in Russia. This means that, in the last decade of the 20th century, the Caspian states are far behind Russia in their oil export capacities. (See table 2.)

However, this may change in the next 10-15 years. According to the forecasts of the State Oil Company of Azerbaijan (SOCAR), oil production in Azerbaijan will amount to 35.3 million tons in 2005, and will reach 46.9 million tons in 2010.³ The Government of Kazakhstan is planning to produce 90 million tons of oil in 2005, and 125 million

2. BIKI (*Bulletin of Foreign Commercial Information*), No. 79 (July 11, 1996), p.13; *Expert*, No. 18 (May 18, 1998), p. 20 (in Russian).

Table 2. Oil production in Russia and the southern tier countries (million tons)^a

	1990	1991	1992	1993	1994	1995	1996	1997
Russia	516	462	399	354	318	307	301	306
Kazakhstan	25.8	26.6	25.8	23.0	20.3	20.5	23.0	25.8
Azerbaijan	12.5	11.7	11.1	10.3	9.6	9.2	9.1	9.0
Turkmenistan	5.7	5.4	5.2	4.9	4.4	4.7	4.4	5 ^b
Uzbekistan	2.8	2.8	3.3	3.9	5.5	7.6	7.6	7.9

a. Source: Statcomitet CIS, 1998.

b. Estimates; no official data available.

tons in 2010.⁴ Turkmenistan expects to extract 17 million tons of oil in 2005, and 20 million tons in 2010. If one compares these figures with present-day production, and takes into the account the fall of oil prices, these plans seem overly ambitious. However, in the longer term, even if domestic oil consumption in the Caspian countries rises to 35-40 million tons, they may export more than 100 million tons a year by 2015. This would amount to only 3-4 percent of the current world oil consumption, but it would be comparable with present Russian oil exports.

Russia, in turn, probably will not be able to increase its oil exports substantially. Even according to the most optimistic assessments, Russian oil production in the next decade will barely exceed 320-350 million tons. Most likely, exports will remain somewhere at about the present levels of 120-130 million tons per year. If the Russian economy begins to grow, domestic energy consumption, which was about 180 million tons a year in 1995-97, also will rise, preventing any noticeable expansion of oil exports.

Thus, if the current forecasts are accurate, the Caspian states will produce as much oil for export at the end of the next decade as Russia. And Caspian oil will be more competitive than Russian oil. The costs of developing and exploiting oil fields seem to be substantially less in the Caspian region than in Russia. In 1994-96 the export prices for

3. *Russian Petroleum Investor* (February 1998), p. 26.

4. *Russian Petroleum Investor* (December 1997/January 1998), p. 37.

Kazakh oil and oil products were \$30-35 per ton less than for Russian oil and oil products.⁵ According to Kazakh experts, the total costs of production of a ton of oil are in the \$19-22 range (\$2.70-2.90 per barrel). The prime costs of oil production in the Azerbaijani shelf are similar, and vary within the \$15-25 per ton range (\$2.00-3.50 per barrel). That is two to three times lower than in Russia, where the anticipated cost of extracting a ton of oil from new fields in Western Siberia and northern European Russia is in the range of \$40-70 per ton. More detailed data are provided in table 3, which shows that Caspian states enjoy very favorable conditions. Their oil production costs are inferior only to the most efficient oil-producing countries of the Persian Gulf.

Table 3. The costs of oil extraction in various regions (US\$ per barrel)^a

	Minimum	Maximum
Caspian	2	4
Canada	20	25
USA, Western Texas	19	17
USA, Alaska	6	7
USA, other territory	18	35
North Sea	12	20
Egypt	10	12
Gabon	9	15
Indonesia	5	8
Russia	5	10
Libya, Malaysia, Mexico, Nigeria, Oman, Venezuela	3	5
Kuwait	1	2
Iran, Iraq, Saudi Arabia	0.5	1

a. Sources: A. Konoplianik and A. Lobtzanidze, *Caspian Oil at Eurasian Crossroads: A Preliminary Analysis of Economic Prospective* (Moscow, 1998. - Graphic 8-2; Thomas Stauffer, *Indicators of Crude Oil Production Costs: The Gulf versus Non-OPEC Sources*, (Boulder, Colorado: International Research Center for Energy and Economic Development, Occasional Paper No. 19, 1993).

5. *Al-Pari*, No. 4 (1997), p. 29 (in Russian).

So, if costs of production alone are taken into account, Russia may lose a future energy export competition with the Caspian states, particularly with respect to the Mediterranean littoral, Turkey, and perhaps China. Since 43-45 percent of Russia's hard currency earnings presently originate from oil and gas export, the advent of the Caspian states as large-scale energy exporters may cause Russia considerable economic damage. This explains why Moscow often perceives the participation of the major oil companies in the development of Caspian energy resources, the growing presence of outside states there, and the striving of the Caspian countries for independence from Moscow as a threat to Russia's national interests.

Natural gas

Though the energy prospects of the Caspian region are most often associated with oil, the natural gas resources of the area may turn out to be even more important. And the consequences of their development for Russia's economy could be even more significant than the consequences of oil exports from the region.

In the 1990s, world natural gas resources were assessed at about 400 trillion cubic meters. Of these, 142.1 trillion cubic meters are proven and economically efficient reserves.⁶ The CIS countries possess 56.6 trillion cubic meters, or 39.8 percent of the world's proven reserves of gas, with Russia's share at about 48.8 trillion cubic meters. The proven reserves of natural gas in the Caspian region (except for the resources in northern Iran and the huge Astrakhan gas field in Russia, with proven recoverable reserves of about 2.6 trillions cubic meters of gas) amount to about 4-5 percent of the world total. There are about 2.8-4 trillion cubic meters of gas in Turkmenistan; 1.5-2.3 trillion cubic meters in Kazakhstan; and 0.1-0.3 trillion cubic meters in Azerbaijan. Taking into account the probable resources that are there, the total amount of natural gas in the region can be assessed at 12-16 trillion cubic meters, which is equal to about 8-12 percent of current global gas reserves.⁷

6. *Pipeline and Gas Journal*, Vol. 224, No. 5 (May 1997), p. 80.

In 1990-91, output of natural gas in Kazakhstan, Azerbaijan, and Turkmenistan exceeded 100 billion cubic meters a year, which amounted to about 4 percent of world production. (See table 4.) More than 80 percent of it was extracted in Turkmenistan. However, by the middle of the 1990s, Turkmenistan's output had declined by half. This reduction predominantly reflected the drastic cut of production that resulted from its dispute with Gazprom, the giant Russian energy company, over export quotas and non-payments. Other obstacles that emerged after collapse of the USSR also played a role. The production of gas in Turkmenistan in 1997 declined to about 16 billion cubic meters a year, which is equivalent to its level of domestic consumption. At that time, Gazprom refused to transport Turkmenistan's gas via Russian territory in an effort to exert economic and, perhaps, political pressure on Ashgabat.

Table 4. Natural gas production in Russia and in the southern tier countries (in billion cubic meters)^a

	1990	1991	1992	1993	1994	1995	1996	1997
Russia	641	643	641	618	607	595	601	571
Azerbaijan	9.9	8.6	7.9	6.8	6.4	6.6	6.3	5.9
Kazakhstan	7.1	7.9	8.1	6.7	4.5	5.9	6.4	6.1
Turkmenistan	87.8	84.3	60.1	65.3	35.7	32.3	35.2	16 ^b
Uzbekistan	40.8	41.9	42.8	45.0	47.2	48.6	49.0	50.4

a. Sources: Statcomitet CIS, 1997; *Finansovye Izvestiya*, May 21, 1998.

b. Estimates; no official data available.

The International Gas Union forecasts that, by 2030, world natural gas consumption may rise to 3,500-4,000 billion cubic meters a year.⁸ The potential natural gas exports of the Caspian region in the first two decades of the 21st century are estimated, at a maximum, of about 170 billion cubic meters a year. If both these forecasts prove accurate, the Caspian countries will be able to satisfy 4-5 percent of the world demand for gas. About two thirds of these potential gas

7. US Energy Information Administration, *Caspian Sea Region* (October 1997).

8. *Pipeline and Gas Journal*, Vol. 224, No. 5 (May 1997), p. 80.

exports (approximately 120 billion cubic meters a year) may be produced in Turkmenistan. However, that is an extremely optimistic prediction that may come true only if significant transportation problems are settled and major funds are invested in the local gas industry.

Russian reserves of natural gas are 12 to 16 times larger than that of the Caspian region. Russia already exports about 200 billion cubic meters of gas, and its share of world production is somewhere between one third and one quarter. There is every reason to believe that in the next 10-15 years, Russia will remain the largest producer and exporter of natural gas. Besides, Iran possesses far greater resources than the newly independent Caspian states. As much as 20 trillion cubic meters may be in the gas fields in the southern part of the country. So, in general, natural gas exports from the Caspian countries will play only a secondary role in the world energy market.

However, in some growing regional markets for natural gas, such as in the Mediterranean littoral and Turkey, Caspian gas may prove more competitive than Russian gas. This would deprive Russia of a large share of its export earnings. More generally, the rise of a more effective rival almost always worsens the positions of other economic actors. To avoid this, Gazprom seems to be trying in particular to direct the eventual flow of Turkmenistan's gas to South Asia, Pakistan, and India, where Russia's gas industry has no serious interests. This could explain why Gazprom canceled the transportation of gas from Turkmenistan to Europe.

Investments in oil and gas deposits

The prospects of development for the oil and gas deposits of both the Caspian region and Russia vitally depend on the amount of foreign investment capital that flows into their energy industries. According to the Russian Ministry of Fuel and Energy, Russian investment requirements for these purposes lie within an estimated range of between \$5-7 to \$9-13 billion a year. At present, government investments in the Russian fuel and power industries are absolutely inadequate. They amounted to only \$250 million in 1997. The recent fall of oil prices has almost nullified the investing capacity of the Russian

oil companies. This means that, without large-scale foreign investments, Russia's oil and gas production almost inevitably will decrease substantially in the next decade.

The Caspian countries' energy investment requirements are of the same magnitude as that of Russia, at about \$5-8 billion a year.⁹ But they are emerging as more successful competitors to Russia in the scramble for foreign capital. The investing climate in the Caspian Basin is much better. Local ruling groups understand quite well that their oil and gas industries represent their only chance to overcome backwardness and avoid social instability.

By July 1998, Azerbaijan has signed 13 contracts with various groups of major oil companies to develop hydrocarbon deposits under the Caspian Sea. The total amount of planned expenditures is \$35 billion,¹⁰ including about \$5 billion allocated due to the contracts with British companies signed in July 1998.¹¹ By the middle of 1998, about \$1.2 billion was already invested in Azerbaijan's oil industry.

Kazakhstan anticipates receiving about \$70 billion worth of foreign investment in its oil and gas fields during the next 30 years in accordance with already signed contracts.¹² In 1997, Kazakhstan succeeded in overcoming an earlier 25-percent drop in oil output. It regained its 1991 level of production and exported 14-17 million tons of oil.¹³ Kazakhstan's ambitious expectations center on the development of its two largest onshore hydrocarbons deposits (Tenghiz and Karachaganack). They also reflect energy resources of the Caspian Sea shelf, mainly of Kashagan formation, that were discovered in the second half of the 1990s with the massive participation of foreign capital. In particular, in November 1997, an international consortium was formed to develop Kazakhstan's energy resources. If preliminary assessments are fulfilled, about 5-7 million tons of oil will be extracted

9. *Neftegazovaya vertikal*, No. 5 (1998), p. 16 (in Russian).

10. *InfoTEK, Statistika, dokumenty, fakty*, No. 12 (1997), p. 6 (in Russian).

11. *Nezavisimaya gazeta* (July 23, 1998) (in Russian).

12. *Caspian Investor* (May 1998), p. 17.

13. *Interfax Petroleum Report*, Vol. VII, Issue 06 (February 6-8, 1998), p. 18.

from the country as early as 2004. And in 2010, oil production is planned to reach 60 million tons.¹⁴

So, the Caspian states have been reasonably successful in attracting foreign investments into their oil and gas industries. This should allow them to compete successfully with Russia in future international energy markets. As for Russia, the prospects of foreigners investing in its oil and gas industry are significantly worse than for the Caspian states. Almost inevitably, this will negatively affect Russia's energy production and exports. The only practical and fruitful way to prevent the decline of Russian oil and gas exports is to reduce their costs of production. To achieve this, Russia needs substantial foreign investment and, especially, advanced technologies from the developed countries. Moreover, since the August 1998 financial collapse and bank defaults, investments in the oil and gas industries are often the only source of foreign capital available to the ruined Russian economy. But at the moment they are absolutely inadequate to meet its needs.

There are a number of reasons for this state of affairs. Russia's decision-making system is complex. In addition, the oil companies and Gazprom basically prefer to borrow from international financial markets rather than attract direct foreign investment. Fiscal practice and legislation are not at all favorable to foreign investors. What is more, it constantly changes. Large-scale corruption and Russia's high crime rate are other important features repelling foreign investment.

Among the most serious obstacles to attracting foreign investment into the Russian oil and gas industries is the stand of the parliamentary majority towards production-sharing agreements (PSA). Communists and nationalists dominate the Russian State Duma. Their principled opposition to "the sale of national wealth" shapes their approach to all production-sharing agreements. They insist that only 10 percent of all PSAs may concern the development of oil and gas fields despite the fact that almost no other Russian natural resources interest foreign investors. They also demand that 70 percent of all the equipment for projects realized on the basis of a PSA must be pro-

14. *Russian Petroleum Investor* (December 1997/January 1998), p. 41.

duced in Russia. This stand ignores the fact that Russia's oil and gas industries need advanced foreign technologies and equipment that cannot be manufactured in Russia. Finally, the left-wing and nationalist majority refuses to accept international arbitration even though Russian arbitration is not acceptable for foreign oil and gas companies. It seems that ideological stubbornness alone does not explain this counterproductive policy. Another cause could be that the communists and nationalists want to prevent an improvement in the country's economic situation, which would hurt their electoral prospects.

Transport of oil and gas

One must not forget that the Caspian Basin is land-locked. It is surrounded in the north by Russia, in the south by the unstable Islamic world, and in the west by Turkey and the Black Sea. This makes the transportation of energy resources from the Caspian a difficult political and economic problem. There are two basic options: to use the pipeline system of the former Soviet Union, the main part of which is under Russian control, or to build new pipelines that bypass Russia. The pursuit of either option would require substantial investments.

The first option remains viable despite deep suspicions in the newly independent Caspian states that Russia will continue to exploit its key position in the pipeline network to exert pressure on its neighbors. But the capacity of the Russian pipeline system today is close to its technical limits. By 1991, when the USSR collapsed, the total capacity of the former Soviet export oil pipelines and sea terminals constituted about 113 million tons per year. In 1997 Russia exported to the so-called "far abroad" about 109 million tons of oil, and it used for this purpose almost the entire capacity of its transportation system, a substantial part of which needs serious repair. To be able to transport more than 3-4 million tons of Caspian oil, the former Soviet pipeline system requires new investment to enlarge its capacity.

At the end of 1997, the transportation of Azeri oil produced at the Azeri, Chirag, and Guineshli offshore oil fields began via the so-called "northern" route. This pipeline runs from Baku to the Russian port of Novorossiysk, which was built in the Soviet period and was recon-

structed in 1996-97. The capacity of this pipeline is about 5 million tons per year, though it may be increased rather easily to 17 million tons if \$800 million is invested.¹⁵ In 1999 the western route, the old Soviet oil pipeline of 7 million tons capacity that goes from Baku to the Georgian sea terminal of Supsa, will be restored and begin operation. Also, construction of a new pipeline system within the framework of the Caspian Pipeline Consortium (CPC) is planned to begin in 1999. This system, with an initial capacity of 27 million tons per year, will link Kazakhstan's gigantic oil fields at Tenghiz, which are being developed by Chevron, with Novorossiysk. It is projected to be operational in 2001. This means that, at the beginning of the next decade, 39 million tons of oil can be delivered from the Caspian oil fields to the Black Sea terminals in Supsa and Novorossiysk. If the capacity of the northern route pipeline increases to 17 million tons, the total amount of oil delivered from the Caspian region to the Black Sea will reach 50-51 million tons.

The calculations of the cost of transporting oil along these pipelines made by the Russian company Transneft (the leading Russian owner and operator of the oil pipelines) show that these costs are in the range of \$24 to \$46 per ton, and depend heavily on the volume of transported oil. (See table 5.) This means that the costs of extracting one ton of Caspian oil and carrying it to Genoa is somewhere between \$45 and \$75. If these calculations are accurate, the oil produced in the Caspian Basin can be competitive in the European market if its transit costs were minimal, at least given present low oil prices.

If these calculations are correct, the optimal transportation strategy for Caspian oil is to construct the CPC system for Kazakh oil and to enlarge the capacity of the Baku-Supsa pipeline. Any increase of the northern route's potential may raise the prices of oil in Genoa. Of special importance could be an increase in the Baku-Supsa pipeline's potential from 5 to 10 million tons, which will save about \$10 per ton of oil. If these routes are used, the likely costs of extracting a ton of Caspian oil and transporting it to Mediterranean terminals would be

15. *Finansovye izvestia*, April 9, 1998 (in Russian).

Table 5. Costs of transportation of oil from Caspian area to Genoa (via pipelines to Black Sea terminals and then by sea to Genoa, according to Transneft)^a

Pipeline	Capacity of pipeline (mln ton/year)	Cost of transportation via pipeline (\$/ton)	Total cost of transportation (\$/ton)
Baku-Supsa	5	34	46
Baku-Supsa	10	24	36
Baku-Supsa	30	21	32
Baku-Novorossiysk	5	19	24
Baku-Novorossiysk	10	22	28
Baku-Novorossiysk	30	25	31
CPC	30	19.5	25

a. Source: *Neft i kapital*, No. 1 (January 1999), p. 51.

between \$50 and \$60. This makes the development of Caspian oil fields profitable if oil prices are higher than \$6.8–\$8.2 per barrel.

Pipeline politics

The current and future routes of the pipelines connecting the oil- and gas-exporting countries of the Caspian area with energy consumers is often seen as an important security problem for both Russia and the Caspian states. Influential sectors of the Russian political and intellectual elite consider any attempt to bypass Russia in transporting oil from Azerbaijan and Kazakhstan as squeezing it out of the region and encroaching on its legitimate rights and positions there. The local elite of the Caspian states, in turn, think that Moscow uses its key position in the pipeline network, as well as in other transportation webs connecting the southern part of the old Soviet empire with the outer world, as an instrument of political influence and economic advantage.

For instance, Kazakh authorities express serious dissatisfaction with the long delays associated with the construction of the Caspian Pipeline Consortium. They see them as evidence of a Russian attempt to hinder oil production in the Tenghiz oil fields. A noticeable segment of the Georgian people believe that Russia is trying to destabilize

Georgia's political situation with a view to preventing the constructing of a pipeline from Baku to the Black Sea (and later to the Mediterranean) via Georgian soil. These concerns seem unfounded, though other cases of pressure really are taking place. These issues have made constructing additional pipelines linking the Caspian region with the outer world that bypass Russia into an important strategic issue.

Since the mid-1990s, both the mass media and professional audiences have discussed about a dozen possible pipeline routes from the Caspian to the Mediterranean, or from the Persian Gulf or South Asia via Iran, Afghanistan, and Turkey. However, U.S. policy towards Iran makes any Iranian route impractical, while the civil war and general disorder in Afghanistan prevent any attempt to construct a pipeline through its territory. Under these circumstances, a pipeline running from Baku to Supsa, and further to the Turkish terminal of Ceyhan in the Bay of Iskanderun in the Eastern Mediterranean, could be the only viable alternative to the pipelines running via the territory of the former Soviet Union. The prospects of this pipeline depend on two crucial factors. The first is the cost of oil transportation. The second is the ability of the Caspian states to produce enough oil to make it necessary to build an additional pipeline, given the routes already existing and under construction.

As shown in table 6, Russia's Transneft company expects that the transportation costs for Baku-Ceyhan route will be high.

Table 6. Transportation costs for Baku-Supsa-Ceyhan-Genoa route (according to Transneft, transportation via pipeline from Baku to Ceyhan via Supsa and further to Genoa by sea)^a

Volume of oil transit (mln ton/year)	Cost of pipeline (bln US\$)	Cost of transit via pipeline (US\$ per ton)	Cost of transit by sea (US\$ per ton)	Total cost of transportation (US\$ per ton)
5	1.47	109	9.5	118.5
10	1.90	71	9.5	80.5
30	3.33	43	9.5	52.5

a. Source: A. Konoplianik and A. Lobjanidze, p. 43.

If these calculations are correct, transporting Caspian oil via Ceyhan is barely profitable given current low oil prices. However, other studies have produced quite different conclusions. For instance, as table 7 shows, calculations made at Rice University in the United States demonstrate that the cost of transporting Azeri oil to Genoa via Supsa could be as low as \$10-12 per ton, while via Ceyhan it could be about \$22 per ton if the volume of oil transit is around 30 million tons per year. This means that Caspian oil may be sufficiently competitive in Europe even if oil prices are lower than at present.

Table 7. Transportation costs for Baku–Genoa via Supsa and Ceyhan routes (according to the study made in James A. Baker III Institute for Public Policy, Rice University)^a

Route	Capacity of pipeline (mln ton/year)	Cost of transportation (US\$ per ton)
Baku-Supsa	45	5.9
Baku-Supsa	75	4.4
Baku-Ceyhan	30	21.8
Baku-Ceyhan	40	21.1

a. Source: A. Konoplianik and A. Lobjanidze, p. 51.

Different estimates of oil transportation costs are not the only factor complicating decision-making regarding a Baku–Ceyhan pipeline. The other is the fact that the transportation cost in this case may be acceptable if the volume of oil transit is about 30 million tons a year. However, the three pipelines that are operational or under construction already—the northern and western routes, and that of the CPC—will be able to transport from 40 to 50 million tons a year. So, an additional pipeline coming from the Caspian to Ceyhan (or any other additional route) will become necessary and economically efficient only if the Caspian states produce 70-80 millions tons of oil per year. In other words, an additional pipeline that bypasses the territory of the former Soviet Union will not be needed earlier than the end of the next decade.

Other factors are also relevant. First, the projected second stage of the CPC pipeline system aims to increase capacity to 67 million tons per year. If this project is realized, then all Kazakh oil will be transported via this system to Novorossiysk, and further by sea to the Mediterranean or to some other Black Sea countries such as Ukraine, Moldova, or Bulgaria. Second, if two pipelines—such as the northern and western routes—are operational, then Azerbaijan simply will not have enough oil to transship via Ceyhan. In this case, a pipeline from Baku to Ceyhan would become possible if a share of Kazakhstan's and Turkmenistan's oil were transported via it also. But this would require a pipeline across the Caspian Sea, which Russia is doing her best to prevent (though Russia lacks sufficient power alone to compel the Caspian states to refrain from such a project). Even more important, transporting oil through this hypothetical trans-Caspian pipeline would substantially raise its costs.

Under current circumstances, Russia for at least a while will retain its key position in the communication network connecting the Caspian states with their main oil and gas markets. This favorable situation tempts Moscow to use its position to exert political and economic pressure on the other countries of the region. In the short term, such pressure may provide Russia with some tactical advantages. From a long-term perspective, however, such a strategy is counterproductive. It stimulates hostile feelings and suspicions towards Russia in the newly independent states of the Caspian and Central Asia, and encourages them to resist Russian influence with the help of Turkey, China, or leading Western powers. Moreover, Russian attempts to prevent the construction of new energy transportation routes that bypass its territory may give rise to conflicts, and thus worsen Russia's security posture in the southern tier areas. Russian opposition might even provoke sanctions on the part of the Western states or the international oil companies.

There are, however, a number of factors that might seriously challenge Russia's monopoly over energy transportation from the Caspian. The biggest oil pipeline under construction within the framework of the CPC is the property not of Russia, but of an international consortium in which the Russian government possesses only 24 percent of the shares. Clearly the Russian government will not deter-

mine the price of oil transportation from Tenghiz to Novorossiysk via this pipeline. Any attempt to hinder the functioning of the international consortium will inevitably have large-scale negative consequences for the Russian government.

Another challenge to Russia's influence over Caspian energy exports is the growing likelihood of turmoil in Dagestan. Widespread conflict in that part of Russia could disrupt the Baku-Novorossiysk pipeline.

Finally, Russia's monopoly on Caspian energy exports depends on several impermanent political factors, including the American refusal to have economic dealings with Iran and the conflict between Armenia and Azerbaijan. If these factors change, pipelines running through Armenia or Iran could be built that would be cheaper than the route via Georgia. Russian exploitation of the Caspian states' dependence on Russian pipelines could stimulate improved American-Iranian relations or a settlement of the Karabakh conflict.

The issue of oil shipments through the Turkish Straits

The most likely outcome, at least through the end of the next decade, is that Caspian oil will be transported to the world market via Russia's and Georgia's Black Sea terminals. Its volume may reach an annual 40-50 million tons in 6-7 years. At the same time, Russia should export an additional 30-35 million tons of Russian oil annually through Novorossiysk and the nearby port of Tuapse. This means that, by the middle of the next decade, the total volume of oil transported via the Black Sea may reach 70-85 million tons. If all of it passes through Turkey's Black Sea Straits, a serious conflict between Russia and Turkey may emerge.

The heart of the matter is that the Bosphorus and the Dardanelles are overcrowded. About 50,000 ships pass through them each year, not taking into account the extensive local traffic. Navigating the Straits is difficult. In some places, the width of the Bosphorus is about 600 meters. In addition, ships passing through it must make several right-angle turns. All these factors create a serious threat of a large-scale environmental calamity in the area of Istanbul, with its 12 million inhabitants.

When the Turkish government approved new national rules of maritime traffic in the Straits in July 1994, it cited environmental concerns. These rules imposed a number of substantial restrictions on oil tankers navigating the Bosphorus and the Dardanelles. In particular, the new restrictions make the transit of oil tankers with a deadweight of 150,000 tons or more practically impossible.

Under such circumstances, the transportation of 80 million tons of oil via the Straits will require each year at least 550 passages of oil tankers of maximum acceptable deadweight. At first glance, this seems to represent only a small portion of current traffic. However, security rules may require limitations on general traffic in the Straits when an oil tanker is moving through them. This could make the cost of oil transit via the Bosphorus unacceptably high.

Russia and some of the large oil companies have protested against the new Turkish restrictions. They cite the Montreux Convention of 1936, which regulates the legal aspects of maritime traffic via the Straits. According to this document, Turkey has no right to restrict commercial traffic in the Bosphorus or the Dardanelles. They also suspect that the Turkish government is trying to use environmental concerns to restrict oil transit via the Straits and promote a Caspian oil pipeline that would run from Baku to Ceyhan.

Russia, however, lacks the ability to force Turkey to change its position on the Bosphorus. If Moscow insists too much on upholding the Montreux Convention, sooner or later the Turkish government may demand a review of its principal provisions, which include strong restraints on the naval presence of non-littoral states in the Black Sea. The last is obviously not in Moscow's interests, given the weakness of Russia's Black Sea fleet.

Under these circumstances, the most likely outcome of Turkish efforts to restrict oil transit via the Straits could be a search for oil transportation routes that would circumvent the Bosphorus and the Dardanelles. Possible routes include pipelines connecting the Bulgarian port of Burgas on the Black Sea with the Greek port Alexandropolis on the Aegean Sea, or a pipeline running between a Turkish port on the Black Sea and Ceyhan. Both of these projects seem impractical given current low oil prices. Any additional transshipment of oil from

tankers to on-shore storage or vice versa would increase the cost of transportation by around \$5-10 per ton.

Thus, the most likely option is to use Caspian oil for energy needs in Ukraine, Moldova, Bulgaria, and Romania, or to transfer it to Europe via the former Soviet "Drujba" pipeline that runs through Ukrainian territory. This idea is fully supported by the GUAM group of states (Georgia, Uzbekistan, Azerbaijan and Moldova) and by Kazakhstan. This option may minimize costs for transportation, as additional expenses are required to build a pipeline connecting Ukraine's Black Sea coast with the "Drujba" pipeline near the Ukrainian town of Brodi.

Russia's strategic considerations

Despite the insignificant role of Caspian oil and gas in the world energy balance, both now and for the foreseeable future, Caspian energy may have noticeable strategic importance, especially in the regional context. For the newly independent Caspian states, oil and gas revenues, as well as foreign investments in the industries and services related to their production and transportation, are the only practical source for meeting their economic development needs.

For Western countries, the development of the energy resources of the Caspian and other areas may help lessen the Persian Gulf's role as the world's principal supplier of oil. This may be especially important in view of the substantial and perhaps rising instability in the Moslem regions of the Middle East, caused in part by the increase in militant Islamic extremism. The large oil companies want to develop the Caspian's hydrocarbon deposits because it is one of the few regions where private companies are welcome. The vast majority of oil-exporting countries are trying to preserve their energy resources for their own national companies.

But Caspian oil and gas may be of special importance to Russia. The advent of the Caspian states in the world oil and gas markets may negatively affect Russia's economic security sometime at the end of the next decade. Russia may lose a substantial share of its export revenues should it fail to compete effectively with the Caspian states. In addi-

tion, Caspian oil exports could lower world oil prices. Russia also might suffer a loss of influence if Ukraine, Moldova, and some Balkan states purchase Caspian oil and gas instead of Russian energy commodities. In such a case, Russia would lose an important instrument for exerting both political and economic pressure on these states, which are now vitally dependent on Russian energy supplies. A large part of Russia's elite would consider such a loss of influence a clear threat to Russia's principal security interests.

All these considerations pose a serious question for Russia's ruling group: how can Russia neutralize these negative consequences? Actually, Moscow has to choose between two principal strategic options that in turn reflect different visions of Russia's more general strategy in the southern parts of the former Soviet Union.

There are two basic concepts of Russian policy towards the Caspian Basin, as well as towards Central Asia, the South Caucasus, and other sections of the former Soviet Empire. The first one is rooted in the traditional "zero-sum game" perception of a "multi-power world," in which states compete for economic, political, and military dominance and influence. Adherents to this framework see the integration of the Caspian Basin with Russia, or at least Moscow's rigid control over the region, as important for Russia's re-emergence as a powerful global geopolitical actor. They also believe that Russia's domination over the Caspian Basin would prevent the feared damage to Russia's economic interests that might arise from the anticipated surge in Caspian oil and gas exports. This approach considers the Caspian as an important area of economic, political, and military competition between Russia and such regional and world powers as Turkey, Iran, and the United States.

Such imperial attitudes, which are characteristic of a substantial part of Russian elite, have diverse roots. These range from the naive self-perceptions of some leading political figures, who see themselves as masters of a great power (which is no longer the case), to the cynical manipulation for political advantage of nostalgic popular feelings. Whatever its origins, the manifestations of such an imperial strategy in practical actions and policies already constitute one of the basic sources of insecurity and instability in the former Soviet south—along

with the region's weak or absent democratic institutions, economic underdevelopment, and social disintegration. From the point of view of Russia itself, any enduring policy of reintegration will inevitably become an unbearable burden given its ruined economy. It also will lead to a confrontation with the United States and other powers, and stimulate suspicions and hostile attitudes among most of the local elite.

The other, almost diametrically opposite, approach presumes that Russia should focus its shrinking resources on the acute economic and social problems that exist within the country. It holds that Russian foreign policy should aim to minimize expenditures and mobilize support from abroad for the reformation of its economy and social institutions. As applied to Russia's policy toward the territories of the former Soviet Union, this approach seeks to create along Russia's frontier a "belt" or (better) a "chain" of independent, stable, and friendly (or at least neutral) states. These regimes would adopt democratic institutions and practices, successfully combat crime, and prevent other non-traditional threats that might spill over into Russia.

Supporters of this approach hold that stability in Russia's border regions is essential for Russia's own security. They believe that Russia should not engage in a competition in the Caspian region with "outside" powers. Instead, Russian interests require that Moscow cooperate with other countries if those countries could contribute to the economic and social modernization of the states in the Caspian region. Supporters assert that the former Soviet republics to Russia's south will hardly be able to overcome their economic crises without significant outside support. These supporters also recognize that the effects of Caspian oil and gas exports on Russia's economy will in many respects depend on Russia's ability to modernize its own oil and gas industries with the help of foreign investment. Accordingly, they call on the Russian government and parliament to make it a priority to create immediately favorable conditions for attracting foreign capital into Russia's energy sector. An essential element of this strategic vision is the need for Russian oil and gas companies to cooperate constructively with the international consortia formed to develop the Caspian energy resources. Such cooperation would include Russia's participation in the consortia's projects.

The Russian elite has not yet decided its ultimate strategy towards the Caspian. This choice will result not only from political sympathies and antipathies. It also will reflect the level of economic, political, and military resources Russia can use to improve its position in the region and to compete effectively with the other powers there.

Any Russian effort to control the economies of the Caspian states would demand enormous resources and would place a heavy burden on the already weak Russian economy. We only need recall how the former Soviet government's practice of promoting investments in the less developed republics aggravated the stagnation of the USSR's economy. Furthermore, any Russian striving for economic domination almost inevitably would stimulate impulses within the Caspian countries to strengthen their economic and military security with the help of "outside" powers such as the United States, Turkey, and some European states. Such a development would only diminish Russia's political and strategic position in the region.

The current economic crisis in Russia further stimulates the centrifugal trends that already characterize its relations with the newly independent states, including those of the southern tier. The closer the economic ties that existed between Russia and a particular former Soviet republic, the greater has been the damage to that former republic's economy from the Russian crisis. The Russian market for their products is shrinking further—as well as the resources Russia can allocate to promote its economic and political goals within the former Soviet Union. Besides, the Russian ruble is losing its role as the reserve currency for the CIS member states.

Russia's military position in the Caspian region is even weaker than its economic situation. Its failure in the Chechen war quite clearly demonstrated that the Russian Armed Forces lack the ability to act even in local conflicts, let alone in larger wars beyond Russia's borders. Moscow also understands quite well that any attempt to hinder the development of Caspian energy assets by force will result only in Russia's international isolation and in the imposition of economic sanctions against it. Any threat to use force will stimulate political and military cooperation between the Caspian states and the Western

powers and Turkey, hence further weakening the Russian position in the region.

Under these circumstances, the only productive Russian strategy in the Caspian region is to cooperate with both regional states and the so-called "third powers" that have economic or political interests there. There are some signs that, since the end of 1997, Russian policy in the Caspian is shifting in this direction. Russia has become a more cooperative and constructive participant in the Caspian in general, and in development of the energy resources there in particular. For example, Russia's new position on the legal status of the Caspian Sea accepts the principle of the Sea's sectional division. However, the left-wing and nationalist opposition groups, which have strong positions in the State Duma, are insisting on a confrontational approach that would involve Russia's using all the forms and instruments at its disposal for exerting pressure on the Caspian states.

The Problem of Conflict Management in the Transcaucasus: New Approaches, New Dimensions

**Dr. Manana Gousseinova, Senior Research Fellow
The Institute for USA and Canada Studies
Russian Academy of Sciences**

Introduction

Since the USSR's disintegration and the decline of Moscow's influence within the territory of the former Soviet Union, all the CIS countries, including those of Transcaucasus, have been actively seeking out new opportunities in their foreign and security policies. Their key focus has been to strengthen their sovereignty and achieve economic and political independence from the former "center." They are quick to exploit any possibilities to reach this goal, and have already started building new relationships with both Western countries and other CIS members. This has drastically changed the traditional position of the former Soviet republics vis-à-vis the outside world. It also has radically affected the balance of power throughout the former Soviet Union.

The Transcaucasian countries, along with the other CIS members, are walking a tightrope between Russia and the West. Taking into consideration that they are surrounded by Muslim countries on the south and the east, and Russia on the north, and that they lie across important trade routes passing through the Black Sea to the west, it is no wonder that their foreign and security policies have become a kind of constant exercise in keeping a balance among their more powerful neighbors. Nevertheless, integrating with the West has become one of the top priorities of Transcaucasian countries' foreign and security

policies. They are therefore currently switching their economic and security ties from Russia to the West.

U.S. interest in the Transcaucasus region

In this respect, it should be mentioned that all of the former Soviet Transcaucasian republics have recently become the focus of increasing U.S. interest. At the end of 1997, the United States defined the Transcaucasus, together with the five former Soviet republics of Central Asia, as a zone of U.S. strategic interest. The Clinton administration has made it a priority to help these countries overcome obstacles to their progress and prosperity.

Washington can no longer ignore this very important region. U.S. interest in this region can easily be explained by its favorable geopolitical location and the huge oil deposits in the Caspian Basin. The United States is promoting an east-west Eurasian transportation corridor for the export of Caspian energy resources. U.S. Senator Robert Byrd (D-West Virginia) said that the Caspian Basin should be a focus of long-term U.S. interest since at least 2-3 million barrels of oil could be exported daily from the region once the production and transport systems mature.

Many experts consider that this U.S. interest will help the Transcaucasian countries establish closer ties with the West, making them less dependent on Russia. Nevertheless, because of its huge oil deposits, this region might become an area of intense competition between Russia and the West.

Russian President Boris Yeltsin's September 1995 decree on Russia's policy towards CIS countries also explains the recent increase in the West's interest towards the region. Many Western experts believe that the decree clearly demonstrates Moscow's intentions of restoring its dominance throughout the former Soviet Union. The decree in effect made official Moscow's previous policy towards these countries. Earlier, Moscow had conducted such a policy unofficially using all possible means, thus very skillfully manipulating everything that happened in the former Soviet Union in its favor.

Many American analysts also consider that this decree was closely connected with Russians' increasing criticism of NATO's decision to expand eastward. They also believe it reflects the position of those Russians who want Russia to regain the superpower status of the Soviet Union.

Western experts who have analyzed the Transcaucasian region's political and economic situation, including former U.S. National Security Adviser Zbigniew Brzezinski, have highlighted two factors: First, nationalism has increased not only within the political elite but also among the general population of all three Transcaucasian countries. Second, Russia should accept the independent status of the region and not attempt to regain control over it. Any such attempt, these analysts argue, would lead to a protracted geopolitical conflict given that the Transcaucasian republics are no longer isolated and inevitably would receive international support. They also think that, after three years of a rather passive position towards the region, Washington has started to support these countries' efforts to strengthen their sovereignty and expand their cooperation with the rest of the world. They maintain that the United States does not want to exclude Russia from the region, but is only trying to maintain a balance between Russia and the other regional and global powers there. These experts also stress that, due to the Russian government's limited resources, it cannot promote these countries' economic development or fully support their financial needs. They also think that Russia could not succeed in blocking foreign investment in the region.

It is no wonder that many American energy specialists share this perspective. They also hold that, in the case of the successful exploitation and export of Caspian oil, the Transcaucasian republics inevitably will become fierce competitors with Russia on the international energy markets. They believe that Russia's main objective is to prevent oil exports from the region for as long as possible. According to them, Moscow has no desire to strengthen these states given that it still considers itself as a kind of dominant power in the region with important commercial interests there. These specialists argue that Washington should no longer ignore the Transcaucasian region. But they unanimously acknowledge that, at least for now, Washington's ability to pro-

mote its interests in the region and affect decisions regarding future oil pipeline routes is very limited.

It should be noted that, given the region's geographic isolation from Western markets, much depends on the future oil pipeline routes. These routes are very important economically, but even more so politically, as they inevitably will affect those countries through which they pass.

The two major conflicts in the region

The nations of this region can achieve their potential only if democracy and civil society thrive, and only if their physical and economic infrastructures—that is, their pipelines, their markets, their oil fields, and their legal and regulatory structures—are open to the outside world. But this is impossible now because of the two major conflicts that are taking place in the region: the conflict in Nagorno-Karabakh in Azerbaijan, and the conflict in Abkhazia in Georgia.

Despite the fact that Russia has filled the vacuum in the post-Soviet space to Russia's south, and is providing security and stability in the region, there is no evident progress regarding the return of refugees from Abkhazia and Nagorno-Karabakh to their places of permanent settlement. The problem of the future political status of Abkhazia and Nagorno-Karabakh also seems far from being resolved. If there are not any positive changes concerning these conflicts, the situation in the region could be drastically aggravated, which would present a serious danger to international security.

Currently, neither Georgia nor Azerbaijan is prepared to settle these conflicts. It is thus necessary to start anew the process of conflict resolution in the Transcaucasus. The truth is that Georgia and Azerbaijan skeptically view Russia's capacity to settle these conflicts. Both countries believe that only NATO can resolve them. To substantiate their arguments, they contrast the success of NATO in Bosnia with what they see as the failure of the Russian peacekeeping mission in Abkhazia.

Azerbaijan blames Russia for failing to attain a lasting settlement to the conflict in Nagorno-Karabakh. In particular, Azeris argue that Moscow needs to exert political, economic, and military pressure on Armenia. Baku has also expressed indignation that Moscow sold Russian weapons to Armenia that were subsequently transferred to anti-Azeri guerrillas in Nagorno-Karabakh. Likewise, Georgians have become dissatisfied with the Russian peacekeeping mission in the Georgian-Abkhazian conflict zone. On several occasions the Georgian parliament has called on Russian peacekeepers to provide security for Georgian refugees wanting to return to Abkhazia. The great majority of Georgians believe that Russia is completely satisfied with the status quo, and is exploiting the conflict between Georgia and Abkhazia to keep Georgia within its sphere of influence.

Some Georgian officials argue that, until the Abkhazia conflict is settled with Russia's help, Georgia cannot establish a special military-strategic relationship with Russia. According to them, it is too early to talk about radical changes in the Russian-Georgian relationship despite the fact that some positive results recently have been achieved. At the same time, they assume that if the situation in the conflict zone remains unchanged, the Georgian-Russian relationship could become aggravated. However, some Georgian experts believe that, though Russian possibilities in this sphere are very limited due to the present situation in Chechnya, it is very important to keep searching for ways to use Russian and other CIS assets to resolve the Abkhazia conflict. The objective should be a political settlement that would retain a single federal Georgian state.

The negative approach of Azerbaijan and Georgia towards Russia's role in the region was demonstrated at the CIS Summit that took place in Kishinev in October 1997. The President of Azerbaijan, Heidar Aliyev, called on NATO not to stand aside and remain indifferent towards the conflicts in the Transcaucasus, which he asserted were endangering European security. Georgian President Eduard Shevardnadze recently declared that Russia's capacity to cope with the conflicts in Abkhazia and elsewhere in the Transcaucasus has been fully exhausted.

Some analysts believe that the Chechen War has released the Transcaucasian nations from a kind of Russian-imposed hypnosis. With respect to Georgia, we must note that it was only a few years ago that, after Abkhazian separatists seized the regional capital of Sukhumi, the Georgians seemed eager to meet all Moscow's demands. They agreed to join the CIS and to place five Russian military bases on their territory. However, several more recent developments appear to suggest that Georgia has started to change its relationship towards Moscow. The Georgian Parliament added a condition to its ratification of the agreement to permit Russian military bases on Georgian territory: Russia would have to support Georgia's claims to Abkhazia. In addition, the Georgian Foreign Minister has demanded that Moscow allocate Georgia a share of the former Soviet Black Sea Fleet. Tbilisi also has proposed a pipeline route for the export of Caspian oil that would traverse Georgia but not Russia. Furthermore, Georgia's isolation from Russia as a result of the Georgian-Abkhazian conflict has made the Georgian people realize they can easily survive without any Russian assistance. Many Georgian officials, moreover, have started to consider Russia as a possible threat to Georgia, and have begun to treat the West as their protector.

The Transcaucasian countries, especially Georgia and Azerbaijan, are currently eager for the West to serve as a sort of counterbalance to Russia. They seek security from the possible reemergence of neo-imperial tendencies in Russia. This newfound desire to make the West the region's sole security guarantor largely results from the failure of Russian peacekeeping missions in the Transcaucasus region. Russia has clearly proven unable to resolve the Abkhaz or Nagorno-Karabakh conflicts on its own.

However, a number of experts believe the Nagorno-Karabakh conflict could be resolved in a short period of time. They think that the involvement of three major countries in the OSCE Minsk Group (Russia, France, and the United States), together with the prospects of exploiting the huge oil deposits in Caspian Basin, will encourage a rapid resolution of the conflict. They note that peace would increase Armenia's prospects of becoming a possible energy transportation route because, according to most analysts, a pipeline through Armenia would be the shortest and cheapest route. This should provide

Armenia with an incentive to show flexibility on the Nagorno-Karabakh issue.

The Transcaucasian countries recently have shown a more positive attitude toward NATO. The Transcaucasian countries believe that the alliance's eastward growth strengthens European security. They conclude that NATO is playing a most important function in maintaining regional stability in a changing Europe. They also share the opinion that the alliance serves as a guarantor for the successful realization of democratic reforms and transitions within the former Warsaw Pact countries.

Several reasons explain their favorable attitude. First, they note with approval the recent U.S. declaration that the Transcaucasian countries, together with the five former Soviet republics of Central Asia, have become a region of great importance for the West. Second, they consider that only NATO can help them move closer to Europe, the international community, and the world market. They regard both NATO and the European Community as the only mechanisms that can guarantee the success of their domestic reforms and provide them with security. Third, these countries believe that at present only NATO can cope with regional conflicts. As noted above, they contrast NATO successes in Bosnia with Russian failures in Abkhazia.

The Transcaucasian countries' favorable disposition towards NATO expansion eastward reflects two considerations. First, these countries consider that NATO expansion will strengthen their position with respect to Russia, making them more independent in terms of their security. Second, through "games" with NATO, both Georgia and Azerbaijan would be better able to pressure Russia regarding its failed peacekeeping operations.

However, the CIS countries, including Georgia and Azerbaijan, realize that their ties with Russia will have a major effect on their future relationship with an expanding NATO. That is why they are doing their best to limit their differences with Russia on this issue. Whereas many CIS members, including the Transcaucasian countries, interpret NATO's expansion eastward as a sign that the alliance intends to let them into Europe, Russia sees it as the beginning of the end of

Russia's status as a superpower and as a redistribution of international spheres of influence in the West's favor.

It is critical for Russia to be integrated into broader world structures. It is no secret that the West and Russia have disagreed profoundly over NATO enlargement. To make sure that NATO expansion occurs in a Europe that is whole and free, the West worked to forge a cooperative NATO-Russia relationship. Such a relationship was codified in the NATO-Russia Founding Act signed two years ago in Paris. The NATO-Russia Permanent Joint Council is an essential mechanism for integrating Russia. Its success will prove important in completing the transition of the European security system from the kind of adversarial, zero-sum relationship that characterized the Cold War to a cooperative one in which both Russia and the United States work together.

Although the West absolutely rejects the idea of a Russian sphere of influence, it assumes that the countries of the former Soviet Union want Moscow to have good relations with its neighbors. While some Russian politicians accuse the United States of trying to dominate the region, and some of Russia's neighbors claim that Moscow is out to dominate them, the reality is that the region will benefit from a cooperative, constructive Russia that trades with its neighbors and that helps resolve differences among them. Among other things, this would improve the region's ability to serve as an east-west Eurasian transportation corridor for the export of Caspian energy resources.

In this spirit, the United States is working with Russia on problems that just a few years ago would have divided the two countries. As described in more detail below, the United States serves as an active co-chair with Russia and France in the OSCE Minsk Group process, which is trying to resolve the conflict in Nagorno-Karabakh. Both Nagorno-Karabakh and Azerbaijan are participating in the Minsk Group's activities. Russian and American soldiers also are serving together under U.S. command in the Bosnian peacekeeping mission. In energy, Washington regards the Caspian Pipeline Consortium route through Russia as an essential element of a multiple pipeline strategy for moving Caspian Basin energy to international markets.

Both the Clinton administration and the U.S. Congress have demonstrated Washington's growing interest in this region with a number of

activities aimed at resolving the conflicts over Nagorno-Karabakh and Abkhazia. The United States-Caucasian Policy Act of 1997 states that the United States should use all diplomatic means practicable, including the engagement of senior U.S. officials, to press for an equitable, permanent, and mutually acceptable resolution to the Nagorno-Karabakh dispute and the other conflicts within the region. The Congress also amended the Foreign Assistance Act of 1961 by adding a new chapter (#12) entitled, "Support for the Economic and Political Independence of the Countries of the South Caucasus." It provides for U.S. humanitarian assistance to promote reconciliation, economic recovery, and regional cooperation in the South Caucasus.

Nagorno-Karabakh

With respect to the conflict in Nagorno-Karabakh, the U.S. Congress has declared that it is the policy of the United States to (1) promote a negotiated settlement through its active participation in the Minsk Group; (2) act as an impartial mediator and facilitate direct talks between the parties to the conflict; (3) not take any actions that would jeopardize the ongoing efforts of the Minsk Group to reach a peaceful solution; and (4) foster confidence-building measures and help create incentives for peace that will lead to a lasting and equitable long-term settlement.

The United States has been involved in the quest for a negotiated settlement to the Nagorno-Karabakh conflict since 1992, when the OSCE (then known as the CSCE) called for a peace conference to take place in Minsk. The conference never met, but the Minsk Group became a standing body seeking a negotiated peace to the conflict. In 1997, the United States strengthened its direct involvement by becoming a co-chair of the Minsk process, along with Russia and France. As a result, a sound and promising approach was developed that concentrated on the security aspects of ending the armed conflict in the first phase, with talks on the final status of the territory to follow. This approach recognized that the sides would not soon agree on the final status of Nagorno-Karabakh. The quest for such an agreement could take many years. During that time, the life of the region would be disrupted and the threat of war would be ever-present. The resulting stunted economic development, especially of Armenia,

would continue to deprive the people of the Caucasus of the prosperity and stability they deserve.

President Heidar Aliyev of Azerbaijan and the then President of Armenia, Levon Ter-Petrossian, had hoped to sign a first-phase agreement that would have:

1. Ended the threat of renewed fighting and allowed hundreds of thousands of refugees to go home;
2. Returned to each side much of the territory occupied by the other;
3. Opened up borders and lines of communication;
4. Lifted all trade embargoes;
5. Left the land connection between Nagorno-Karabakh and Armenia intact and secure; and
6. Provided international peacekeeping forces and security guarantees.

Such an accord, which would have dealt only with security issues, would have allowed Azerbaijan and Nagorno-Karabakh to discuss status issues without preconditions. Both sides then would have pursued a mutually acceptable formula free of any military, political, or economic pressure to sign a deal.

Unfortunately, the Nagorno-Karabakh authorities refused to participate in negotiations based on this proposal. They insisted on discussing the status issue from the beginning. Washington feared that concentrating on the status question first would have returned the talks to the endless exchanges of maximalist positions that had characterized the negotiations before the United States had become a co-chair. Meanwhile, vast number of displaced persons would have remained in their camps, miserable and increasingly radicalized. None of the three co-chairs was willing to sponsor such negotiations, which would have been an exercise in futility.

The resignation of Armenian President Ter-Petrossian on February 3, 1998, and the subsequent Armenian presidential elections, forced a

pause in the peace process. The United States has made clear that it hopes and expects the new Armenian government to take a serious approach to negotiations aimed at achieving real progress towards a lasting and fair settlement.

Abkhazia

The United States has participated actively in the quest for a solution to the simmering, on-again, off-again conflict in nearby Abkhazia. During the past year, Washington has worked hard to ensure that the UN-sponsored peace talks could prove more successful than the stalled Russian efforts. Frustrated by the lack of progress, Russia too has recently welcomed an increased role for the UN in peace negotiations.

As one of the so-called Friends of the Secretary General on this issue, the United States has become more directly involved in international efforts to attain a settlement. These efforts currently are led by Liviu Bota, the UN Secretary General's Special Representative to the region. In November 1997, negotiations in Geneva resulted in the establishment of a series of working groups that have begun to address such pressing problems as economic and humanitarian cooperation, refugee return, and mutual security. Ambassador Bota and the Friends have met in Sukhumi with representatives of the parties to the conflict to assess the progress of the working groups and to set concrete goals for subsequent negotiations.

Many Western experts are actively pushing proposals to expand the UN's role in the Abkhazia peace process, a sign of Westerners' growing interest in the region. One proposal is to arrange expert consultations, mainly at the local level, under the United Nations' auspices. These consultations would help the parties to the conflict discuss such issues as energy transportation and the problems affecting other communication systems. Such consultations would undeniably help the parties to admit their common interests in reviving economic and social activity throughout Georgia. Another Western proposal is to resume negotiations, under the auspices of the United Nations and other international organizations, on Abkhazia's future political status within the Georgian state.

Assistance to the countries in conflict

American assistance programs also serve as an important component of U.S. diplomacy in Transcaucasus. Congress has earmarked \$12.5 million for the victims of the Nagorno-Karabakh conflict, and \$5 million for those suffering from the Abkhazia conflict. This U.S. contribution has helped induce the leaders of Abkhazia to participate in multilateral peace efforts. Personnel from USAID and the U.S. embassy in Tbilisi have sent an assessment team to Abkhazia to determine how best to use this assistance. Spurred on by U.S. efforts, the United Nations and other international financial institutions have sent their own teams to study post-conflict reconstruction. In addition to these high-profile humanitarian assistance programs, American funds have helped make it possible for reformers in Armenia and Georgia to institute judicial reform and to draft economic legislation and electoral laws. Overall, U.S. assistance to Armenia and Georgia is among the highest in the world on a per capita basis.

There is, however, one congressionally imposed obstacle to U.S. diplomacy: Section 907 of the Freedom Support Act. This prohibits certain kinds of U.S. assistance to the government of Azerbaijan. U.S. Secretary of State Madeleine Albright has urged the Congress to lift the legal restrictions on U.S. non-military assistance to Azerbaijan while maintaining aid to Armenia.

Washington believes that zero-sum rivalries among large powers trying to impose their will on smaller states are—or at least should be—a relic of history. There is more than enough wealth, security, and economic opportunities in the Caspian Basin to go around if all the states of the region, large and small, cooperate in an open, mutually beneficial and mutually respectful manner, and if they play by today's rules of international life. In its own policy towards the Transcaucasian countries, Washington is creating conditions in which those committed to Russia's transformation into a normal, modern state will prevail over those that are bucking the tides of history.

We have seen that both Azerbaijan and Georgia want NATO to assume a more active role in resolving the conflicts in the Transcaucasian region. It would seem that NATO, along with other international institutions, could and should be one of the main instruments

in resolving such conflicts. In this respect, the key term that captures the broader context of NATO today is "architecture." This term implies that security in today's Europe can no longer be assured by unilateral, purely national solutions. "Architecture" implies multilateralism and cooperation—not only between states, but also between institutions. Since 1945, an impressive array of such institutions has been created, including, most prominently, the United Nations, the OSCE, the European Union, and NATO.

The end of the Cold War has affected each of these institutions. They all are undergoing dramatic changes in an effort to become more effective players in the architecture of organizations. Yet, they are still a long way from becoming effective crisis managers.

NATO involvement in the region

NATO should, and already has, become involved in peace support operations for a number of reasons. First, its new Strategic Concept emphasizes the need for crisis management and peace support operations. Second, as a regional organization, NATO has an interest in ensuring European stability. Third, its members share a collective security interest in contributing to European crisis management. Fourth, the allies firmly believe that NATO can play a part in contributing to a better new world order. Fifth, there is a strong belief that peace support operations represent one way of demonstrating NATO's commitment to such values as the protection of human rights. Finally, the investment that NATO members have made in their military capabilities over the years can now, in many respects, be applied to this new task of crisis management.

NATO is currently absorbing and applying lessons learned in the Balkans that will enhance its planning, preparation, and execution of future peace support operations. Together with those countries participating in NATO's Partnership for Peace (PFP) program, NATO will establish a political-military framework for NATO-led PFP operations, including peace support operations. This will create the necessary structure and procedures to enhance cooperation with PFP members and will enhance Partner involvement in the decision making and planning process for peace support operations.

NATO's efforts to project stability demonstrate that we are dealing with a fascinating and unsettled historical period in which the alliance is rapidly adapting to the new security environment. Peace support operations will constitute an important NATO task in this environment. Any future NATO peace support operation probably will include PFP members and other non-NATO countries. The lessons learned from these operations will prove most useful to future operations, but one must not forget that no two peace missions are the same. Each operation has its own specific objectives, requirements, and stipulations.

Russia's relations with the region

It is clear that Transcaucasian countries' aspirations for rapid modernization and economic development—as well as similar desires in the other CIS countries—weaken Moscow's ability to keep them under its control. For the last six years, the CIS countries have been reviewing new options. Now they realize that Russia's possibilities are also restricted, and that they can conduct their Western policy without Moscow. The former USSR's boundaries no longer isolate them from the rest of the world. On the contrary, they are currently very actively searching for new economic and security cooperation opportunities with neighboring countries that could strengthen their capabilities as sovereign states.

Moreover, according to President Aliiev and President Shevardnadze, the CIS has been unable during the past six years to resolve any of the problems affecting the successor states of the former Soviet Union. Both Presidents also believe that it is quite impossible to artificially accelerate economic and security integration within the CIS.

Russia today is cooperating with the OSCE on Nagorno-Karabakh and with the United Nations in Georgia. Frustrated by a lack of progress, and motivated by a desire to reduce its substantial outlays on peacekeeping and by an unwillingness to remain isolated from the rest of Europe, Russia has recently welcomed an increased role for the United Nations and the OSCE in peace negotiations involving conflicts within the territories of the former USSR. The major problem is to force Moscow to respect UN norms and follow civilized standards

of interstate relations. Russia must not aim to restrict CIS members' independence or restore the kinds of relations Moscow had with its Cold War "allies." Yet, both the UN and the OSCE lack the means to restore peace in the Transcaucasus region—though Moscow's cooperation with these international organizations, as well as with the leading Western countries, helps stabilize the situation. Georgia, Armenia, and Russia also are unable to deal with the conflicts in the region on their own, but a new conflict management scenario is emerging with new conflict management tools. Undoubtedly, the most fundamental instrument in coping with the region's problems will be continued integration and globalization.

Emerging Security Challenges and Opportunities in the Black Sea Region

**Dr. Richard Weitz, Research Analyst
Center for Naval Analyses**

The events associated with the end of the Cold War, particularly the USSR's collapse, have produced dramatic changes in the Black Sea region. Most observers have focused on the economic dimensions of these changes, but these developments also present security challenges and opportunities for the countries involved in the region. This paper describes some of these issues and highlights their potential implications for the United States and Russia. It then discusses the opportunities that exist for both countries to cooperate to manage them.

Caspian and Central Asia energy resources and the Black Sea

International interest in the Black Sea region has increased because the production of oil from Azerbaijan and the Central Asian republics of Kazakhstan, Turkmenistan, and Uzbekistan could increase significantly during the next decades. Experts also anticipate a sharp growth in less valuable natural gas exports from Turkmenistan.¹ The current debate centers on how best to bring this additional energy to the international market. The old Soviet pipeline system as presently structured cannot handle the anticipated increase in energy flows. It requires modernization and augmentation by new pipelines. Unfortunately, legal difficulties (particularly past disagreements among the littoral states concerning how to demarcate zones in the Caspian for energy extraction) and financial problems (especially the current low price of oil on the world market) have significantly hindered efforts to increase Caspian energy exports.²

The governments and energy companies involved currently envisage two pipeline routes for the so-called "early oil" from Azerbaijan. One, the Baku-Novorossisk route, which became operational in November 1997, passes through the unstable Russian districts of Dagestan and Chechnya. Tankers ship some of the oil from the Russian Black Sea port of Novorossisk to Bulgaria. The other route for the "early oil" proceeds along a repaired pipeline linking Baku to Georgia's Black Sea port of Supsa. Tankers then transport the oil from Supsa, where a 1.6-million-barrel oil terminal is under construction, through the Turkish Straits. The continuing unrest in Georgia may threaten the security of this route.³

Selecting routes for the oil and gas deliveries from the Central Asian republics, which will far exceed the volume and value of Azerbaijan's projected "early oil," engenders greater controversy. The United States and Turkey favor developing both an energy delivery route

1. The Clinton administration's May 1997 *National Security Strategy* estimates the Caspian Basin's potential oil reserves at 200 billion barrels (p. 22). The White House's subsequent October 1998 version of *A National Security Strategy for a New Century* cites a lower figure of 160 billion barrels, and cautions that "we must remember that the vast majority of proven oil reserves lie in the Middle East and that the global oil market is largely independent" (p. 32). Other recent estimates of the amount of oil and gas at issue appear in "The Caspian's Black Holes," *The Economist* (March 13, 1999), p. 78; Geoffrey Kemp, "The Persian Gulf Remains the Strategic Prize," *Survival*, vol. 40, no. 4 (Winter 1998-99), p. 143; and S. Frederick Starr, "Power Failure: American Policy in the Caspian," *The National Interest*, No. 47 (Spring 1997), p. 21.
2. Many of the issues involved in the pipeline battle are discussed in the following sources: Rosemarie Forsythe, *The Politics of Oil in The Caucasus and Central Asia*, The International Institute for Strategic Studies Adelphi Paper No. 300 (Oxford: Oxford University Press, 1996); Martha Brill Olcott, "The Caspian's False Promise," *Foreign Policy* (Summer 1998) pp. 95-113; and "Symposium—Caspian Oil: Pipelines and Politics," *Middle East Policy*, vol. 5, no. 4 (January 1998), pp. 27-50.
3. Georgian President Eduard Shevardnadze said that "outside forces" opposed to the Baku-Supsa pipeline were responsible for a failed attempt on his life last year (Paul Sampson, "Lubricating the Caspian," *Transitions*, vol. 6, no. 2 (February 1999), pp. 26-27).

between Central Asia and Baku, which would proceed under or along the surface of the Caspian Sea, and a 1,700-kilometer pipeline that would link Baku through Georgia to Ceyhan. This Turkish deepwater Mediterranean port, which currently has surplus capacity, can handle 300,000-ton supertankers. The Baku-Ceyhan route would avoid Russia, Iran, and the Black Sea, but oil companies complain about its high costs (especially given the current low oil prices) and have repeatedly postponed deciding whether to make the investment.

Most other routes under active consideration involve shipping Caspian energy products across the Black Sea, either directly through the Straits or to the Bulgarian Black Sea port of Burgas for transshipment by pipeline to the Greek Mediterranean port of Alexandroupolis. Energy specialists and oil companies have considered possible export routes through Iran, China, or Afghanistan-Pakistan, but such routes currently face many political and financial obstacles. With Russian encouragement, oil companies already are building a pipeline that will link the oil fields in Kazakhstan to Novorossiysk. Construction of an oil terminal in the Ukrainian port of Odessa, which annually exports about 15 million tons of Russian crude, and an oil refinery near the Romanian port of Constanta, also continues.⁴ Some have suggested building new oil terminals on Turkey's Black Sea coast.

Turkey's resistance to additional oil shipments through the Turkish Straits presents an acute problem for many of these proposals. The Montreux Convention of 1936 states, "In time of peace, merchant vessels shall enjoy complete freedom of passage and navigation in the Straits, by day and by night, under any flag and with any kind of cargo, without any formalities." Starting in 1994, however, Turkey unilaterally introduced 59 changes to the rules of passage through the Straits. Turkish officials cite safety and environmental concerns—12 million people live in Istanbul—associated with the increasing ship traffic to justify these restrictions. The number of ships passing through the narrow and congested Turkish Straits each day has increased from approximately 15 in 1938 to about 137 in 1996.⁵ On average, about

4. Ariel Cohen, "U.S. Policy in the Caucasus and Central Asia: Building a New 'Silk Road' to Economic Prosperity," *The Heritage Foundation Backgrounder*, no. 1132 (June 24, 1997), p. 6.

20 accidents occur each year, and a new vessel traffic management system will not become fully operational until at least 2001.⁶ The Turkish government has announced plans to introduce even stricter regulations in the future.⁷

Representatives of Greece and Russia, the most frequent users of the Straits, repeatedly have contested the legality of Turkey's actions. For financial reasons, the Russian government and Russian energy companies would prefer that Russian pipelines and tankers deliver Caspian energy to international markets. They suspect that the Turkish restrictions on the number of ships that can transit the Straits, which Turkey justifies on environmental grounds, actually aim to impede the transshipment of Caspian energy products through Russia and the Black Sea. Turkey also limits the size of tankers passing through the Straits to 150,000 tons. Russian authorities believe these restrictions are meant to promote the development of oil and gas pipelines linking the Caspian region to the West through Turkey. Ankara would earn more in transit and construction revenue from such a land-based pipeline than from increased tanker traffic through the Turkish Straits, with less environmental risk.

Terrorism could present another obstacle to the transshipment of Caspian oil and gas. A November 1996 hijacking incident, in which supporters of Chechnya's independence seized a Turkish ferry and its 250 passengers, suggests the vulnerability of Black Sea traffic to terrorism. Furthermore, the violently anti-Turkish Kurdistan Workers' Party (PKK) already has sabotaged existing energy pipelines passing through southeast Turkey from Iraq.⁸ Pipelines that pass through the unstable regions of the Caucasus are also vulnerable to sabotage. The United States, Russia, and other governments share a common inter-

5. "The Dire Straits," *Time*, vol. 149, no. 12 (March 24, 1997), p. 45.

6. Office of Naval Intelligence, "Black Sea: Oil Exports Increasing (U)," January 25, 1999.

7. David Ottaway and Dan Morgan, "U.S., Turkey Turn Up Pressure For Caspian Basin Oil Pipeline," *The Washington Post*, October 28, 1998.

8. "Iraqi Pipeline Bombed in Turkey," *The Washington Post*, March 22, 1999, p. 14.

est in averting terrorist actions that could disrupt commercial activities in the Black Sea region.

The Turkish-Russian contest for Black Sea primacy

Military contacts between Turkey and Russia under the aegis of the NATO Partnership for Peace (PFP) program have increased recently. Turkey continues to buy military goods from Russia. Russia also supplies the bulk of Turkey's energy needs. In May 1998 the two countries signed a memorandum of understanding which declared that deeper bilateral military ties would promote peace in the Black Sea region and elsewhere. The two countries also announced their intention to expand their joint participation in PFP exercises.

Yet, Turkish-Russian relations remain strained. Both countries seek to become the main route for oil and gas pipelines linking the Caspian Basin to world energy markets. Russian officials have expressed concern about Turkey's growing influence in the newly independent Central Asian republics. Turkish authorities distrust Russian intentions in the Caucasus and worry that Russian military deployments there threaten Turkey.⁹ Russia has bases in both Georgia and Armenia, and relations between Turkey and Armenia remain historically antagonistic. Russian troops enforce a cease-fire between the central Georgian government and the secessionist republic of Abkhazia, which borders the Black Sea. The Russian press recently disclosed that, from 1994 to 1996, the Russian military clandestinely provided \$1 billion worth of weaponry to Armenia. These transfers, which included tanks and other heavy weapons, helped the armed separatists of Nagorno-Karabakh, an ethnic Armenian autonomous enclave within Azerbaijan, to defeat Azeri military units and seize large areas of neighboring Azeri territory in addition to Nagorno-Karabakh itself.

9. For more on Russian-Turkish rivalry in Central Asia and the Caucasus see Robert Olson, "The Kurdish Question and Chechnya: Turkish and Russian Foreign Policies since the Gulf War," *Middle East Policy*, vol. 4, no. 3 (March 1996), pp. 106-118.

Russia's financial and other problems have resulted in Turkey's navy becoming the most powerful conventional fleet regularly operating in the Black Sea. Russia has 52 naval vessels and 4 submarines in the Black Sea; Turkey has 116 navy ships and 16 submarines in total (though less than one-third of these normally deploy in the Black Sea).¹⁰ Turkey's army of over 500,000 soldiers outnumbers Russian ground forces in the south. Last year, Turkish authorities began searching Russian ships passing through the Bosphorus that the Turks suspected carried parts of the Russian S-300PMU-1 surface-to-air missiles purchased by the Greek Cypriot government. Turkey warned it would use force to prevent the Greek Cypriots from obtaining these weapons. These threats eventually persuaded the Greek Cypriots not to deploy the missiles in Cyprus. Instead, they had Russia send them to Crete. The Russian government protested that the searching of commercial ships passing through the Straits violated the Montreux Convention. Turkish officials complain about a March 1996 incident in which Russian ships attacked Turkish fishing vessels operating in Georgia's territorial waters.

The Turkish government has resisted Russian proposals for a set of Confidence- and Security-Building Measures (CSBM) for the Black Sea. Instead, it has promoted the creation of a Black Sea on-call naval force (BLACKSEAFOR). In late October 1998, naval officials from Bulgaria, Georgia, Romania, Russia, Turkey, and Ukraine agreed in principle to establish a joint fleet to operate under NATO's PFP program.¹¹ Representatives from these countries intend to meet again in 1999 to finalize their plans and determine the force's initial activities.

10. Oleksandr Pavliuk, "Empire of Words," *Transitions*, vol. 5, no. 9 (September 1998), p. 60. For an assessment of the navies of the Black Sea littoral countries, see Eric Grove, "Rise and Fall: A New Order in the Black Sea," *Jane's Navy International* (March 1998), pp. 12-18; the article also concisely describes the main provisions of the Montreux Convention.

11. "Black Sea Nations To Form Joint Fleet," *Defense News* (October 26-November 1, 1998), p. 2.

A possible worsening of U.S.-Turkish relations

U.S.-Turkish relations could worsen for a variety of reasons. Turkish officials already complain that the United States and other NATO allies unfairly restrict weapons sales to Turkey.¹² They also believe that American and European interest in Turkey declined after the Soviet bloc's collapse, which ended Turkey's role as a front-line state against the Warsaw Pact.¹³ Turkish representatives point to the Europeans' refusal to grant them EU membership, and to the steadily diminishing level of U.S. security assistance to Turkey (from \$500 million in grants in 1991 to \$175 million in market rate loans in 1997), as evidence of decreased Western concern.¹⁴ Turkish officials also complain that, whenever Turkish and Russian interests clash, Western governments accord Russian concerns a higher priority. Similarly, they believe Turkey has received inadequate compensation for its decade-long enforcement of the UN economic blockade against Iraq. (Turkey has lost approximately \$30 billion in forfeited transit fees from the closure of the main Iraqi-Ceyhan oil pipeline alone.) Turkish authorities fear that U.S. support for the Kurds of northern Iraq against Saddam Hussein's regime promotes Kurdish separatism in Turkey, though they continue reluctantly to permit American and British operations out of Turkey to enforce the "no-fly" zone in northern Iraq.¹⁵

The U.S. and Turkish governments differ at times on how the Turkish military should manage the protracted PKK insurgency in southeast Turkey. The Turkish military's campaign of "low-intensity warfare" against the PKK costs an estimated \$3-7 billion a year and engages

12. See, for example, Cevik Bir, "Turkey's Role in the New World Order," *National Defense University Strategic Forum*, no. 135 (February 1998).

13. Ibid.

14. Sean Kay and Judith Yaphe, "Turkey's International Affairs," *National Defense University Strategic Forum*, no. 122 (July 1997), p. 2.

15. U.S.-Turkish differences over the Kurdish issue are discussed in Mahmut Bali Aykan, "Turkish Perspectives on Turkish-US Relations Concerning Persian Gulf Security in the Post-Cold War Era: 1989-1995," *Middle East Journal*, vol. 50, no. 3 (Summer 1996), pp. 349-351.

about 200,000–250,000 Turkish soldiers.¹⁶ Concern over possible Turkish human rights abuses against the Kurds has led the U.S. Congress to impose restrictions on the delivery and use of American-made weapons. (Other NATO governments have insisted on similar limitations, whereas Russian arms dealers show greater flexibility.) Domestic trends in Turkey, such as a growth of anti-Western Islamic extremism, could also cause the Turkish government to reduce military ties with the United States—including curtailing U.S. access to Turkish military facilities.

NATO's growing involvement in the region

During the past decade, NATO members have developed military-to-military relations with all the countries of the Black Sea littoral. Most notably, the former Soviet and Soviet bloc countries there have established contacts with the alliance through NATO's Partnership for Peace (PFP) program, which links NATO countries with non-member partner states. Most of these countries have established military liaison offices in Brussels, have participated in joint exercises with NATO countries under the auspices of PFP, and have expressed their intentions to increase their interoperability with NATO military forces. The alliance has signed special charters with Russia and Ukraine to promote cooperation with these two countries. Alliance members (as well as other European countries) also have assumed arms control commitments on "the Southern Flank" of the Conventional Forces in Europe (CFE) Treaty, which includes the countries in

16. Different estimates appear in Simon V. Mayall, *Turkey: Thwarted Ambition* (Washington, DC: Institute for National Strategic Studies, National Defense University, 1997), p. 84; and Lale Sariibrahimoglu, "Arming for Peace," *Jane's Defense Weekly* (August 19, 1998), p. 29.

the Black Sea region.¹⁷ (The CFE Treaty limits several classes of weapons on the Continent.)

The governments of Georgia and Azerbaijan, citing the alliance's successful peacekeeping operations in Bosnia as a precedent, and concerned about Russian ambitions in the Caucasus, have proposed that NATO enforce any future peace agreement between them and the secessionist authorities of, respectively, Abkhazia and Nagorno-Karabakh.¹⁸ Some Georgian and Azeri representatives—frustrated by years of fruitless talks under the aegis of Russia and the Commonwealth of Independent States (CIS), the OSCE, and the United Nations—also have called on NATO to assume a more direct role in bringing about a settlement of the Abkhazia and Nagorno-Karabakh disputes.¹⁹

PFPP countries desiring to become NATO members will continue to request guidance from the U.S. Armed Forces regarding their operational and procurement practices. In particular, they will seek U.S.

17. For a review of NATO's recent activities in the region south of Russia, see Glenn H. Howard, "NATO and the Caucasus: The Caspian Axis," in *NATO After Enlargement: New Challenges, New Missions, New Forces*, edited by Stephen J. Blank (Carlisle, Pennsylvania: Strategic Studies Institute, U.S. Army War College), pp. 151-227. Bulgaria's prospects for joining NATO are assessed in Jeffrey Simon, "Bulgaria and NATO: 7 Lost Years," *National Defense University Strategic Forum*, no. 142 (May 1998).

18. For background information on these conflicts see Vladimir Baranovsky, "Russia: Conflicts and Peaceful Settlement of Disputes," in Stockholm International Peace Research Institute, *SIPRI Yearbook 1998: Armaments, Disarmament, and International Security* (Oxford: Oxford University Press, 1998), pp. 129-135.

19. Vafa Guluzade, senior foreign affairs advisor to President Heydar Aliyev of Azerbaijan, has even called on the United States and Turkey to establish military bases in his country to counter what he termed "a big threat from Russia" [cited in Stephen Kinzer, "Azerbaijan Asks U.S. to Establish Military Base," *The New York Times*, January 31, 1999]. Stephen Sestanovich, U.S. ambassador at large to the former Soviet republics, said the United States had no intention of seeking bases in Azerbaijan [Ron Laurenzo, "U.S. Base in Azerbaijan not in Cards," *Defense Week* (February 8, 1999)].

help concerning how to participate most effectively in NATO-led multilateral exercises and possible future peacekeeping operations. The U.S. Army has conducted joint military exercises in Kazakhstan and Uzbekistan, including a highly publicized paratroop jump by 500 members of the 82nd Airborne division into Kazakhstan as part of a September 1997 exercise. The following September, the United States sent the Sixth Fleet flagship, USS *LaSalle*, on a visit to the Georgian port of Poti and the Russian port of Novorossiysk.

Future U.S.-Russian relations in the region

Several emerging trends in the Black Sea region, unless diplomatically managed, could further exacerbate U.S.-Russian relations—which already have been worsening because of NATO expansion and the U.S. military operations against Iraq and Serbia. The Russian government's attitude toward the increased involvement of the United States and other NATO countries in the Black Sea, the Caucasus, and Central Asia remains ambivalent. Russian press coverage of NATO Secretary-General Javier Solana's February 1997 visit to the Caucasus and Central Asia showed that the Russian government feared that NATO intends to offer alliance membership to these states or, at a minimum, to constrain their influence. (Solana intends to visit Kazakhstan, Turkmenistan, and Uzbekistan in June 1999.) Russian representatives have objected to past NATO exercises in the Black Sea and Central Asia that they believed had anti-Russian connotations. For example, the Russian Ministry of Defense said that the "Cooperative Partner 98" exercises posed "a potential threat to Russian security."²⁰ The Russians also boycotted "Sea Breeze 97" (a multinational PFP naval exercise in the Black Sea) because they considered the original scenario—NATO forces assisting Ukraine to counter armed separatists—provocative. To avoid such problems in the future, NATO needs to establish mechanisms to incorporate Russian ideas and concerns earlier in its exercise-planning process—especially as it proceeds to

20. Cited in Yuri Golotyuk, "Russia Starts Building Novorossiysk Stronghold," *Russkij telegraf*, July 8, 1998, p. 2, Foreign Broadcast Information Service [FBIS] document FTS19980710000148.

design future exercises in the Black Sea region, including the planned first-ever PFP exercises in Georgia next year.

U.S. support to Turkey, the newly independent states of the Caucasus, and Ukraine could collide with Russian security concerns in the Black Sea area. As noted above, U.S. officials share Turkish preferences regarding pipeline routes for Caspian energy exports. Many Russians believe that Western oil firms and their governments (especially Turkey and the United States) aim to deprive Russia of its fair share of the Caspian energy bonanza.²¹ Azerbaijan, Georgia, and Uzbekistan recently announced that they would not renew the CIS collective security treaty, intensifying Russia's concerns that it is losing its former sphere of influence. The U.S. government has adopted a range of policies and programs aimed at consolidating the independence of the former Soviet republics, including those to Russia's south. In addition, the United States undertook a series of formal security assurances to Ukraine when that country agreed in 1994 to transfer its nuclear weapons to Russia and renounce the acquisition of nuclear weapons in the future.²² A worsening of U.S.-Russian relations could complicate the security situations of Ukraine, Armenia, and other former Soviet republics seeking to maintain good relations with Russia as they expand ties with NATO. Conversely, any armed conflict between Russia and these newly independent states, especially Ukraine, would severely damage ties between Washington and Moscow.

21. For more on the risks of a possible U.S.-Russian dispute over the Caspian energy resources see Amy Myers Jaffe and Robert A. Manning, "The Myth of the Caspian 'Great Game': The Real Geopolitics of Energy," *Survival*, vol. 40, no. 4 (Winter 1998-99), pp. 112-129; and Paul Starobin, "The New Great Game," *National Journal* (March 13, 1999).

22. The extensive commitments undertaken by Washington to induce Ukraine's denuclearization are discussed in Roman Popadiuk, *American-Ukrainian Nuclear Relations*, McNair Paper No. 55 (Washington, DC: Institute for National Strategic Studies, National Defense University, October 1996), especially pp. 52-56.

Russian-Ukrainian relations

A deterioration of Russian-Ukrainian relations cannot be ruled out. When Ukraine became an independent country in 1991, it immediately contested Moscow's claims of inheritance to the former Soviet Black Sea Fleet and the former Soviet naval base at Sevastopol. Many Russians believe that the Crimea, with its almost-70-percent ethnic Russian majority, should belong to Russia, not Ukraine. The May 1997 Russian-Ukrainian agreements, just recently ratified by both countries' legislatures, only partially resolved these disputes.²³ They did allocate some of the Black Sea Fleet to Ukraine, affirm the immutability of existing borders, and provide rented space in Sevastopol for Russia's Black Sea Fleet, though limiting the length of the lease to 20 years (renewable for another five). In 1997, the Russian Ministry of Defense officially divided the Russian Black Sea Fleet—with its 25,000 sailors, naval infantry brigade, ten intelligence attachments, and an air component that includes a regiment of Su-24 tactical bombers—into a western group based in Sevastopol and an eastern group stationed in Novorossiysk. It also has announced plans to expand the small naval facilities at Novorossiysk, but inclement weather hinders navigation around this port in winter. Future events unrelated to naval issues (e.g., a resurgence of Russian nationalism, or a Ukrainian decision to seek NATO membership) also could reignite these disputes.

Conclusion

The U.S. government will have to manage carefully its long-term relationship with Russia given the diverse U.S. and Russian priorities in the Black Sea region. Moscow likely will resist an increase in U.S. military activities in the area of which they are not a full partner, or U.S.-sponsored energy transportation routes that bypass Russia. Maintaining good U.S.-Russian relations is an important way to ensure the continued independence of the former Soviet republics. Russia and the

23. For an assessment of these accords, see James Sherr, "Russia-Ukraine *Rapprochement*?: The Black Sea Fleet Accords," *Survival*, vol. 39, no. 3 (Autumn 1997), pp. 33-50.

United States share important common interests in the region, especially in limiting violent conflict, controlling pollution, and encouraging foreign investment and strong regional economies. They can most effectively promote these objectives through close cooperation, both with each other and with the other states of the region.

Each of the above emerging trends individually could have a significant impact on U.S.-Russian relations. In combination, however, their effect likely will be even more important, presenting serious challenges to Russian-American relations. But these challenges will not be insurmountable. Most often, they will present opportunities for profitable cooperation between our two countries.

Appendix: Suzdal Seminar Exchange on "The Problems to the South of Russia"

The three preceeding papers were presented to the CNA-ISKRAN seminar held in Suzdal, Russia, on December 12, 1998. Following the presentation of the three papers, a short discussion was held on the subject. The transcript follows.

Dr. Gaffney (CNA). I want to explain Washington's concerns about Iran. We Americans are outside spectators to internal Iranian politics. A few days ago, a group of U.S. businessmen went to Iran to see if they could take advantage of any change in Iranian attitudes toward the United States. Their bus was stoned. So our ability to improve relations with Iran clearly depends on internal Iranian political developments that we have little influence over. There is also a lot of historical baggage separating us.

Admiral Lopez currently has also stressed the need to use the Caspian oil to help diversify the world's sources of energy. In this light, the idea of shipping Caspian oil through the Gulf would appear to be a contradiction. We still see the region as one in which conflict could easily break out.

Dr. Mazing (ISKRAN). You know that Dr. Goussinova is from Georgia. I come from Estonia, so I can be more dispassionate. I would like to discuss some issues relating to military security in the region.

The area is certainly of vital importance for Russia's national security. I can't imagine that any sober Russian politician would not say that this area lies in Russia's zone of security. All the countries there are parties to the CIS mutual security agreement.

There is a Russian proverb, "The East is a delicate sphere." The Georgians turned to Russia not because they liked Russians, but because they wanted to resolve their internal problems with the help of Rus-

sian troops. Now they are turning to the West for the same reason. The West should not forget this.

We would like to withdraw from Central Asia. But what do we do about the trafficking in drugs and armaments there? We do not have sufficient border facilities to block them.

China is also very interested in the area. China, Russia, and the West all have differing interests in the area.

Captain Filin (Main Navy Staff; Naval Scientific Committee). The Montreux convention restricts the activities of warships in the Black Sea. It limits their size and length of stay there.

At present, six governments are littoral states of the Sea. Five of them are former Warsaw Pact members. These new countries are at a stage when they are still sorting out their national interests, both internally and externally.

We already have discussed how the process of exploiting the energy resources of the Caspian could lead to increased tensions in the region. We already see unilateral actions by Turkey in the way it is changing the rules of passage. We also see increased activity by the U.S. Navy and its NATO allies in the Black Sea. The number of foreign warship visits to the Black Sea, and their length of deployment in the Sea, has increased by 50 percent over last year. Any revision of the Montreux Convention would only make things worse by allowing more warships into the region.

Dr. Fedorov (ISKRAN and Moscow Institute of International Affairs). I would like to elaborate on Captain Filin's remarks. It is very important to provide a realistic assessment of Turkish-Russian relations. Russia is also at a stage when it is formulating its national interests for the region. It is still unclear where our interests lie. Turkey has serious problems with Syria, Greece, Cyprus, and even Bulgaria. The growth of Turkish naval power threatens not only the Black Sea countries, but also the Mediterranean states. Turkey's ambitions in the early 1990s towards toward Central Asia also should be noted in this regard, though in this case its rhetoric did not match its resources. So the question arises: How should Russia deal with Turkey under the

present conditions? On the one hand, elements of rivalry exist. On the other, we want to cooperate. Our economic and military ties are increasing. This problem is very complex. A one-sided view of Turkey as a rival to Russia would be a mistake.

Admiral Smith (CNA; former U.S. Representative to the NATO Military Committee). The United States has a very special relationship with Turkey. We are NATO allies. Turkey was a very big supporter of the coalition in its war with Iraq, at a considerable cost to its economy. Turkey is being treated poorly by the EU. It is my perception that the U.S. government and the U.S. military feel some responsibility to help Turkey as much as possible. I suspect our military favors Russia's arms sales to Turkey for this reason.

With respect to Ukraine, when the CIS was formed, Ukraine reluctantly agreed to transfer its nuclear weapons back to Russia. The U.S. Defense Department wanted to make sure that Ukraine followed its agreements. This led the United States to support Ukraine's participation in various NATO exercises, which explains why there is so much PFP activity in the Black Sea region. This also explains why there is a special NATO-Ukraine agreement.

But it should be possible for the United States and Russia to cooperate to support Turkey and regional stability. From the U.S. point of view, Turkey appears to represent the most stable Middle Eastern country. Our military tries to promote as many military-to-military exchanges as possible. It also supports Turkish-Israeli military cooperation, which has aroused concern in other Middle Eastern countries.

Dr. Krivokhiza (Russian Institute for Strategic Studies). Those who have studied the history of the region know that the current political situation there is inseparable from past conditions. In the 1970s, the British Foreign Office published documents on the Caucasus concerning British policy in the 1920s. It seems the British had vast ambitions there.

I want to stress that the current task is to stabilize the Caspian and Black Sea regions. It is one of the most unstable regions of the world, like the Balkans. There is the conflict over Nagorno-Karabakh, the problem of Islamic extremism, Turkey, Israel, Afghanistan, and many

other problems. There is a whole range of interests there. Russia does not have imperialist ambitions there. Russia cannot close its eyes to the fact that the countries there buy its energy. So we need to come up with a common understanding of the problems in the region, and think of ways to promote stability there.